Primary Capital Grows Twice as Fast as Assets at Top 100 Banks

Continued from Page 1

age total assets plus the allowance for loan and lease losses.

The new survey found that primary capital at the top 100 banks totaled $95.4 billion on June 30, up 4.9% from $91 billion on Dec. 31, 1985. Over this period, the assets of these banks rose by 2.2% to $1.4 trillion.

The survey published today consists of a listing of the top 100 banks in primary capital; a geographical breakdown of the top 100 banks; and a ranking of these 100 banks by three different capital-to-assets ratios: primary capital, equity capital, and total capital.

The *American Banker* ranks banks by primary capital because it is the current federal regulatory measure of capital adequacy. Primary capital is the total sum of the equity capital, the allowance for loan and lease losses, equity contract notes, and minority interest in equity accounts of consolidated subsidiaries, minus goodwill placed on the books after April 15, 1985.

However, primary capital can be a misleading measure of comparative capital adequacy. For example, a bank with substantial loan losses will have a sizable allowance for loan losses, which will inflate its primary capital and its primary capital ratio. The primary capital ratio for this bank is not comparable with the same primary capital ratio of a bank with an average loan-loss experience.

The regulators are aware of this problem and are moving toward a system of capital requirements based on risk. Adequate risk-adjusted primary capital will become a function of the asset composition of the bank.

(It is important to note that the *American Banker's* calculation of the primary capital ratio differs from that of the federal regulators. *American Banker* uses end-of-period assets, while the regulators use average assets.)

There was sizable growth in the equity capital component of primary capital, the survey found. Equity capital, which accounts for more than 73% of primary capital, rose 4.2% from $72 billion at yearend 1985 to $75 billion at midyear 1986.

Equity capital is the sum of perpetual preferred stock, common stock, surplus, and undivided profits and capital reserves. It is the excess of the bank's assets over its liabilities.

With respect to equity capital, the first half of 1986 was a very hot market for bank stocks. Interest rates stayed down, a factor which has traditionally meant good news for bank stock prices. The stock of many banks, especially regional institutions, sold at well above book value, which means that new equity could be sold without diluting the value of existing shares.

Other Survey Findings

- Citibank — the nation's largest bank in deposits and assets — was the top bank in primary capital with $8.2 billion on June 30, up 6.7% from $7.7 billion on Dec. 31 and up 13.5% from $7.3 billion a year earlier. Citibank is the lead bank of Citicorp, New York.
- Two other Citicorp bank affiliates also figure prominently in the rankings. Citibank (Delaware) in New Castle and Citibank (South Dakota) in Sioux Falls had the highest primary capital-to-assets ratios at midyear, 88.06% and 12.89%, respectively.
- The ratio of primary capital to total assets on June 30 ranged from a low of 5.22% for State Street Bank & Trust Co., Boston, to a high of 88.06% for Citibank (Delaware).
- Listing the top 100 banks in primary capital by their primary capital ratios, *American Banker* finds that the top 20 banks had ratios of 7.50% or more, while the banks ranked 81 to 100 had ratios lower than 6.25%.
- The average equity capital ratio for the top 100 banks in primary capital was 5.34% at midyear, up from 5.23% at yearend. The bank with the highest equity capital ratio was Citibank (Delaware) with 87.69%.

Many bank analysts consider equity capital to be a better measure than primary capital, because it is "the purest form of capital." It does not include the allowance for loan losses and subordinated debt. Also, the ratio of equity capital to total assets is considered a good measurement of a bank's ability to grow in the future and to withstand unanticipated losses.

The ratio also provides a good comparative ratio of capital adequacy among banks, and it is an easy capital measure for a bank to compute. In general, a bank is considered to have adequate capital when its equity capital ratio is in the 4% to 5% range.

All but two of the top 100 banks in primary capital had equity capital ratios greater than 4%. InterFirst Bank Dallas NA had a ratio of 3.70% and Bank of America had the lowest ratio among the top 100 — 3.33%. ■

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Dear Reader, How Are We Doing?

The American Banker wants very much to make sure its coverage of the financial services industry meets your information needs. So would you spend a moment to give us some feedback on the statistical tables that appear in today's survey of the **Top 100 Commercial Banks in Primary Capital**? Over the past year we have incorporated many of your suggestions to provide more meaningful information. Please return this questionnaire to L. Michael Cacace, Statistical Chief, American Banker, One State Street Plaza, New York, N.Y. 10004. Telephone 212-943-4836.

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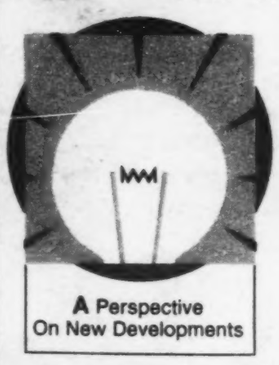

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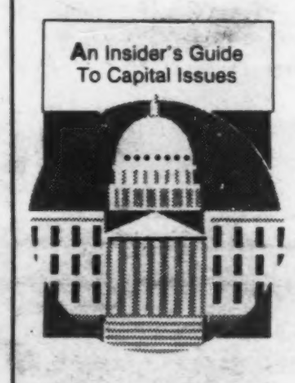

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Armacost Ouster Telegraphs Toughened BankAmerica Stand

By MICHAEL A. ROBINSON
and ROBERT LUKE

SAN FRANCISCO — The resignation of Samuel H. Armacost as chief executive of BankAmerica Corp. last Friday is but a first step in what is expected to be a difficult road to recovery at the nation's second largest bank.

Samuel Armacost

The move, which came after months of rumors about Mr. Armacost's ouster, gives the troubled San Francisco banking organization some breathing room after last week's unsolicited merger bid from First Interstate Bancorp.

It also sends a signal to federal regulators, the investment community, and BankAmerica customers that the company is willing to take difficult steps to regain its profitability and prestige following a sustained five-year slump.

BankAmerica's board was expected to announce a successor to Mr. Armacost after a special meeting Sunday. Other top management changes also may be announced.

Speculation regarding a successor centered around A.W. "Tom" Clausen, whom Mr. Armacost replaced as the company's president and chief executive in 1981. Mr. Clausen, 61, who resigned as president of the World

BankAmerica: Page 21 ➡

League Says Special FSLIC Assessment Driving Thrifts to Convert to Banks

By JIM McTAGUE

WASHINGTON — The U.S. League of Savings Institutions claims that special assessments levied by the Federal Savings and Loan Insurance Corp. are the reason more of its members are converting to commercial banks, but thrift regulators claim the assessments have nothing to do with the trend.

Most of the 24 savings and loans attempting to leave the umbrella of the FSLIC are being purchased by commercial banks, a spokeswoman for the Federal Home Loan Bank Board said last week. The S&Ls want to escape the special assessments, which since 1985 have been levied by the cash-strapped FSLIC in addition to the regular annual premium they must pay for FSLIC coverage of their deposits up to $100,000.

The U.S. League is lobbying for legislation that would phase out the assessment over a period of about five years, but would give the Bank Board authority to reinstate it again. The House has passed the measure and the Senate is expected to take it up Tuesday.

The Bank Board, which adopted a regulation on Friday asserting its juris-

Fed Looks at Goldman-Sumitomo Deal Page 2

Talman Ready to Go Public Page 7

diction over the transfer of S&L assets to the FDIC, said there was no evidence to support the U.S. League's claim of assessment-related defections. But neither side could provide numbers to substantiate their respective claims.

The National Council of Savings In-

Assessment: Page 19 ➡

Docutel Pulls ATMs From Market in US

Pioneer Hurt by Delays In Delivering New System

By JEFFREY KUTLER

NEW YORK — Docutel/Olivetti, the first manufacturer of automated teller machines in the United States, is abandoning the domestic ATM market after 18 years of erratic profitability.

AtMs

Plagued by delays in delivering a highly touted new product, the company began telling U.S. customers about 10 days ago of its intention to discontinue ATM marketing.

It had announced plans earlier this year to close its manufacturing plant in Texas and to begin importing ATM products from Europe. But the plan could not overcome Docutel/Olivetti's sagging reputation in the midst of stagnant demand for ATM products generally.

Executives of Olivetti USA and its Dallas-based electronic funds transfer division, which is the former Docutel Corp., have made no formal announcement of the pullback pending notification of customers. Industry sources said they expected a press release to be issued later this month.

Telephone calls to Olivetti USA last week were not returned, but the *American Banker* confirmed the decision with several sources who had been in communication with the Italian-owned computer and office products firm.

According to these sources, Olivetti USA was chronically unable to meet delivery commitments on its latest automated teller machine, the ETS 6400. Some banks that already had been told of 30- to 60-day delays were

Docutel: Page 22 ➡

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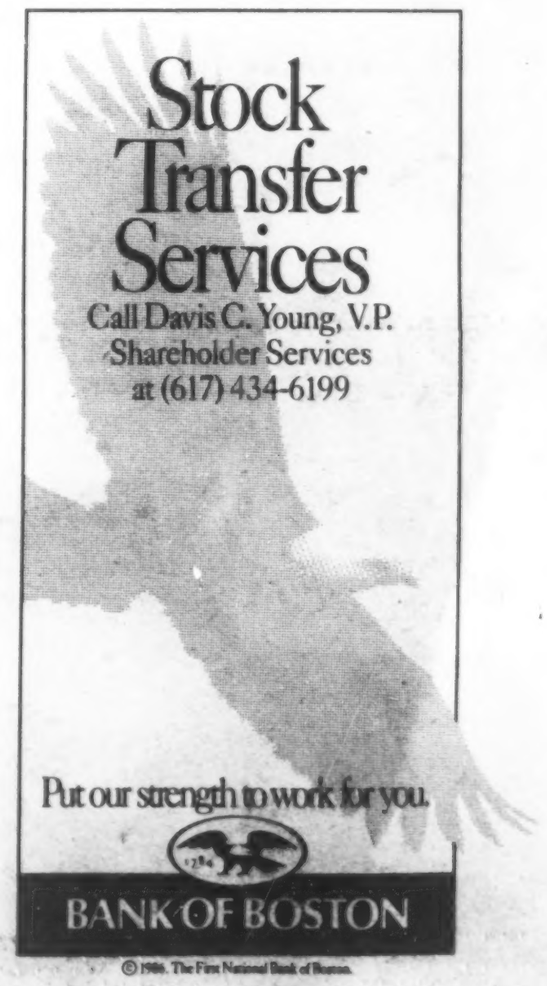

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Funds Still Sought To Restructure Mexico's Debt

By GORDON MATTHEWS

NEW YORK — Bankers who spent all of last week trying to come up with $6 billion in new money for Mexico had apparently not succeeded by Friday.

The major banks that comprise the creditors' committee for the heavily indebted nation reportedly have had difficulty rounding up the support of other banks since a tentative agreement for the financial package was announced Sept. 30.

The banks are said to have been given until the end of this month by the International Monetary Fund to agree on the new financing. That is a condition of the IMF's own provision of $1.7 billion to Mexico, announced in July.

As in a number of other recent debt rescheduling operations, the IMF's contribution and that of the banks' depend on each other. The banks reached their provisional agreement during the recent IMF-World Bank annual meeting under heavy pressure from the United States government.

So far, it has reportedly proved difficult to actually gain commitments for the new funds from Mexico's more than 500 creditor banks. Last week, several senior bankers close to the negotiations said that they might not obtain more than 80% of the funds being sought from regional and non-American banks.

Any such shortfall from those banks would have to be made good by the major banking creditors, even if it ends up exceeding their share of all the banks' exposure to Mexico, since the IMF is insisting that the banks contribute a full $6 billion for the remainder of this year and 1987.

On Friday, William Rhodes, executive vice president of Citibank and co-chairman of the Bank Advisory Group for Mexico, launched the selling of the package at a Washington meeting of 70 to 80 bankers under the auspices of the Bankers Association for Foreign Trade.

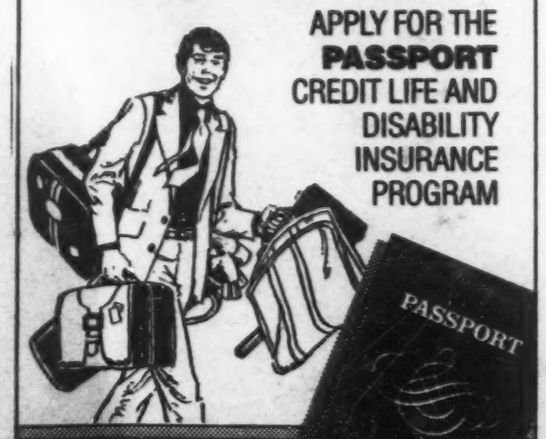
Meanwhile, in New York, the bank creditors committee continued to meet with Mexican officials to iron out wrinkles in the tentative package.

The $6 billion now being sought for

Mexico: Page 19 ➤

ON THE ROAD TO INCREASED FEE INCOME AND IMPROVED CUSTOMER SERVICE

APPLY FOR THE PASSPORT CREDIT LIFE AND DISABILITY INSURANCE PROGRAM



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Aggregate Level of 'Daylight Overdrafts' Up Despite Limits, Federal Reserve Official Says

Board to Consider Further Reduction in Overdraft Caps Available to Banks

By TOM FERRIS

NEW YORK — Despite the introduction of limits on intraday bank overdrafts six months ago, the aggregate level of the so-called "daylight overdrafts" has increased, a Federal Reserve Board staff official said last week.

Cash Management

As a result, the Federal Reserve Board soon will consider whether it should further reduce the overdraft caps that banks can select for themselves, the Fed official, Elliott C. McEntee, said at a conference in Washington.

In a discussion of the Fed's plans in the payments area, Mr. McEntee also said:

• The agency's much-delayed proposals for reducing operating and credit risk in the automated clearing house network should be released for comment by the end of the year. Among the possibilities under consideration are limits on transaction amounts.

• Proposals to curb overdrafts associated with government securities transactions, which were excluded from the caps implemented last March 27, are also expected to be published before January.

• The board will review a study by its staff on whether the Fed should charge explicit fees for daylight overdrafts on the central bank's funds-transfer network, the Fed Wire. "It's too early to tell whether that study will lead to an invitation to comment on the desirability of charging for daylight overdrafts," Mr. McEntee said.

• A proposal to change the way the Fed recovers the cost of float in the automated clearing house will result in higher fees only for debit transactions that exceed $64,000. More than 90% of the debits initiated by corporations to centralize cash are lower than that threshold, and therefore it is unlikely that many electronic payments would be converted back to checks because of the plan.

• The board is reviewing the impact of the later presentment of checks by the Fed to a large number of banks nationwide. The later presentment deadlines were aimed at speeding the collection of checks by giving the Fed more time to process items for delivery to the banks on which they were drawn.

Under the program, about $10 billion worth of checks are being cleared one day faster, Mr. McEntee said. However, he added, it is possible that as a side effect of the Fed's efforts, an increasing number of banks and firms are using cash-management techniques that slow the clearing of checks.

"We plan to complete the study by next June," he said. "It is possible that this study could lead to some modifications in Reserve Bank check collection services and policies."

Mr. McEntee, the associate director of reserve bank operations for the Fed, spoke last Thursday at the Bank Admin stration Institute's annual conference on cash management. His comments included an update on the Fed's risk-reduction program, which prompted limits on the overdrafts banks could incur while transferring funds over the two major corporate wire-transfer networks, the Fed Wire,

Daylight: Page 19 ➤

Midwest Bankers Buck National Card Program

Discord and Cost Efficiency Lead Illinois and Ohio Groups to Issue State Cards

By RICHARD RINGER

CHICAGO — Independent bankers associations in two states have started credit card issuing programs instead of participating in the much ballyhooed program begun by their national trade group, the Independent Bankers Association of America.

The result is that the IBAA could get less revenue from its credit card arrangement, which independent bankers say has become the No. 1 priority of the national association's bank services committee.

The Independent Community Banks in Illinois next week will roll out its credit card issuing program that was organized after the state group could not reach an agreement with the IBAA over revenue sharing from the national association's card program.

"We attempted to renegotiate and compromise on the revenue sharing issue," said Robert Wingert, executive director of the Illinois group. "We did that in the spirit of unity. But they [IBAA] chose not compromise."

In August, the Community Bankers Association of Ohio implemented its own credit card issuing program for its member banks. The state program is less expensive for independent banks and will provide the state association with more revenue than what was possible by joining the IBAA program, said Scott Williams, executive director of the Ohio independent bankers group.

The defections by the Illinois and Ohio associations also are viewed in some quarters as:

• An embarrassment for the IBAA. The Independent Community Banks in Illinois is the second largest state group of independent bankers in the country. For such a large association to start a competing program probably will slow the anticipated growth of the IBAA venture.

Moreover, Mr. Williams of the Ohio independent group is given credit by some as conceiving the idea of a trade group starting a credit card program for member banks. He was preparing such a program for the Ohio group when he was asked to sit on the IBAA bank services committee, which was instrumental in getting the IBAA Bancard program organized. Mr. Williams, by some accounts, became frustrated with the IBAA effort.

Interstate Debates in Indiana, Colorado
Page 8

And even though the IBAA credit card program was unveiled months before the Ohio program, no Ohio independent bank has joined the IBAA program. So far, 16 Ohio banks have joined the state association's program.

• An indication that state associations aren't ready to fall in step with the IBAA. Adhering to the "independent tradition," state independent bankers associations clearly aren't prepared to unquestionably follow the national association leadership's views.

"State associations have heartbeats of their own," said Mr. Wingert of the Illinois independent group. State associations, he said, have "an agenda to fulfill" and "can't always be dictated to" by the national association.

"I have no problem competing with anyone outside the state," said Mr. Williams of the Ohio independent bankers.

• More intense competition between the IBAA and its state member organizations in providing services to banks that have the potential of generating substantial fee income to the providing association. Concern about continued consolidation of the banking industry that could dwindle their memberships has the national and some associations looking for revenue generating ventures. That's vital since membership dues and fees contribute a substantial income for the associations.

The situation in Illinois is an example. The number of independent banks in the state that are IBAA members has dropped to 570 this year from 620 the year before, said Mr. Wingert. During the same time, the number of banks that are members of Illinois independent group increased to 485 from 455.

Membership dues account for about 55% of the Illinois group's revenues, while educational programs provide 15%, services to members almost 20%, and the remainder coming from interest income on investments and other income, said Mr. Wingert.

Ideally, Mr. Wingert says he prefers the independent bankers to join and participate in the state association as well as the the national association. And, he says, he continues to stress that in meetings with bankers throughout

IBAA: Page 18 ➤

Corrections

An *American Banker* listing of the top 100 banks in credit card loans on Sept. 8 misstated the 1984 gross interest revenue from credit card operations for 87th-ranked United Missouri Bank of Kansas City NA. The correct number is $25.4 million for 1984, resulting in a rise of 10.9% to $28.2 million for 1985.

First Wachovia Corp., Winston-Salem, N.C., was omitted from a Sept. 30 listing of the top 25 holding companies by net income for the first half of 1986 because the bank submitted an incorrect net income figure. First Wachovia should be ranked 18th, with net income of $91.9 million over the six months.

Bancomer, Mexico City, revised its figures on total deposits and total assets at yearend 1985, affecting its world rankings. Total deposits on Dec. 31 were revised upward to $6.73 billion, making it the 228th largest bank in the world in deposits instead of the 271st, as reported in an *American Banker* listing on July 29. Its assets were revised downward to $7.81 billion, making it the 251st largest bank in assets instead of the 246th, as reported in a July 30 listing. ■